CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 141 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 21ST MARCH 2022

The Monetary Policy Committee (MPC) met on 21st March, 2022, in an environment of heightened geopolitical tensions and persisting macroeconomic uncertainties, associated with the recent Russia-Ukraine crisis and headwinds stemming from the lingering impact of the COVID-19 pandemic. The Committee reviewed developments in the global and domestic environments in the first quarter of 2022 and the outlook for the rest of the year. These include the likelihood of tightening external financial conditions associated with monetary policy normalization in the Advanced Economies, the cocktail of sanctions imposed on Russia, global supply chain disruption associated with the invasion of Ukraine, and increasing vulnerabilities associated with the burgeoning global private and public debt portfolio and risks to financial stability. Others include increased uncertainties across major financial markets and the increased risk of continuing rise in prices confronting central banks due to the huge monetary and fiscal stimuli injected into the global economy to subdue the downside risks to growth.

Ten (10) members of the Committee attended this meeting.

Global Economic Developments

The Committee noted with concern, the recent heightening of uncertainties confronting the recovery of the global economy as the Russia-Ukraine conflict and numerous sanctions against Russia, introduced a new dimension of risk to the tepid recovery of the global economy. It further took into cognizance, the lingering headwinds associated with the COVID-19 pandemic and global supply chain constraints; rising inflationary pressure; and more recently, the progression of an interest rate hike by the US Federal Reserve Bank and Bank of England (BOE). Members noted that the ongoing war and the resultant sanctions against Russia will continue to have a considerable impact on the global supply chain as both countries are major players in the global commodities market. With both countries significantly interconnected to the

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global financial markets, global capital flows are expected to experience some downturn, exacerbated by the increasing sanctions on Russia.

Consequently, the earlier projections by the International Monetary Fund (IMF) for global output growth in 2022 and 2023 of 4.4 and 3.8 per cent, respectively, are likely to be revised downwards due to the overarching downside risks identified on the horizon.

Price development across major Advanced Economies continued to trend upwards and is expected to be accentuated in the short to medium term, reflecting the persisting supply bottlenecks, rising food and energy prices, and the ongoing war which heightened the observed trend. In the Emerging Market and Developing Economies (EMDEs), inflation remained high, with some economies recording inflation rates well above the average in the Advanced Economies. This was mostly due to a mix of downside risks from the COVID-19 pandemic, capital flow reversals, legacy structural challenges, supply-side bottlenecks, and exchange rate market pressures.

In the global financial markets, investors maintained a substantial portion of their portfolios in gold and other precious metals, as the uncertainty around market securities persists alongside the Pandemic and the emergence of new risks following the imposition of sanctions on Russia. It is still unclear at the moment how the progression with monetary policy normalization by some key Advanced Economies will impact the recovery of the global economy, given the risks associated with this Crisis. Investors are however adopting a cautious approach in view of the impact of these developments on activities in the global markets. Global financial conditions are thus, expected to tighten in the short-term as the investment horizon gradually becomes clearer. This is expected to impact capital flows to emerging market economies as risk-averse portfolio investors adopt a wait-and-see approach. Consequently, the risks to the overall recovery of the global economy remain heightened and call for cautious policy maneuvering to avoid a sharp downturn such as experienced in 2020.

Domestic Economic Developments

According to the National Bureau of Statistics (NBS), Real Gross Domestic Product (GDP) grew by 3.98 per cent (year-on-year) in the fourth quarter of 2021, compared with 4.03 per cent in the third quarter of 2021 and 0.11 per cent in the corresponding period of 2020. On a quarter-on-quarter basis, GDP grew by 9.63 per cent in the fourth quarter of 2021 compared with 11.07 per cent in the preceding quarter. This indicates the fifth consecutive quarter of real output

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expansion, following the exit from recession in 2020. The positive performance was driven largely by the growth in the non-oil sector to 12.36 per cent in Q4 2021 from 10.99 per cent in Q3 2021. Quarrying, transportation & storage; education; financial & insurance services; information & communication; as well as a steady rebound in manufacturing and mining activities were key to the growth of the non-oil sector.

The Committee, however, noted that although the Manufacturing Purchasing Managers' Index (PMI), remained above the 50-index points benchmark in February 2022, it moderated slightly to 50.1 index points from 51.4 index points in January 2022. This sustained positive performance in the manufacturing PMI reflects the resilience of the economy in light of persisting headwinds to the recovery. The Non-Manufacturing PMI, however, remained below the 50 index points in February 2022 at 49.0 index points, with a slight moderation compared with 49.01 points in January 2022 as legacy headwinds such as the persisting insecurity and infrastructural constraints continued to impact production and the ease of doing business in Nigeria.

The Committee observed with concern, the marginal increase in headline inflation (year-on-year) to 15.70 per cent in February 2022 from 15.60 per cent in January 2022, a 0.10 percentage point uptick.

This increase was largely attributed to a rise in the core component to 14.01 per cent in February 2022 from 13.87 per cent in January 2022, while food prices moderated marginally. The rise in core inflation was mostly due to rising energy prices as a result of the current scarcity of Premium Motor Spirit (PMS), rise in the cost of Automotive Gas Oil (AGO), and hike in electricity tariff. The Committee, however, expressed cautious optimism, that with sustained interventions by the Bank in various sectors of the economy and broad fiscal support to tame these legacy structural constraints, price development will moderate as output growth improves. The MPC, therefore, urged the fiscal authorities to seek innovative ways of addressing the current critical supply-side challenges confronting the economy, to enable the unhindered transmission of all the recently deployed fiscal and monetary stimulus to the real economy.

Members noted that the growth rate of broad money supply (M3) increased to 2.12 per cent in February 2022, compared with 1. 74 per cent in January 2022. This was largely attributed to an increase in the growth rate of Net Domestic Assets (NDA) to 5.78 per cent in February 2022 from 2.62 per cent in the previous month.

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On the developments in the money market, the Committee observed the movement in money market rates around the asymmetric corridor, reflecting the prevailing liquidity conditions in the banking system. Accordingly, the monthly weighted average Open Buyback (OBB) and Inter-bank Call rates decreased to 5.81 and 9.30 per cent in February 2022 from 6.00 and 16.00 per cent in January 2022, respectively. The decrease in the rates reflected the liquidity conditions in the banking system.

The MPC noted the sustained improvements in the equities market in the review period. The All-Share Index (ASI) and Market Capitalization (MC) both increased significantly from 42,716.44 and N22.30 trillion on December 31, 2021, to 47,282.67 and N25.48 trillion on March 18, 2022, respectively. This prevailing positive performance was attributed to gradually improving macroeconomic fundamentals which support improved outcomes and returns on investments from companies quoted on the Nigerian Exchange
Limited.

The MPC also noted the continued resilience of the banking system, evidenced by the further moderation of the ratio of Non-Performing Loans (NPLs) to 4.84 per cent in February 2022 from 4.90 per cent in December 2021. The Committee also noted that Liquidity Ratio (LR) remained above its prudential limit at 43.5 per cent in February 2022, while the Capital Adequacy Ratio (CAR), moderated slightly to 14.4 per cent in February 2022 from 14.5 per cent in December 2021. Overall, Members expressed confidence in the Bank's regulatory regime and commitment to maintaining stability in the banking system, urging the Management to sustain its tight regulatory surveillance.

On the external reserves position, the Committee noted the decrease in the level of gross external reserves to US$39.44 billion as of March 17, 2022, from US$40.21 billion on January 25, 2022, indicating a decrease of 1.95 per cent during the review period. The moderate accretion to reserves reflects the duality of Nigeria's position as an oil exporter and importer of refined petroleum products.

The Committee reviewed the performance of the Bank's various interventions to stimulate productivity in manufacturing, industry, agriculture, energy, infrastructure, healthcare, and micro, small and medium enterprises (MSMEs). Between January and February 2022, the Bank disbursed N29.67 billion under the Anchor Borrowers' Programme (ABP) for the procurement of inputs and cultivation of maize, rice, and wheat, three crops that hitherto were significant

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concerns of FX demand. These disbursements bring the total under the programme to over 4.52 million smallholder farmers, cultivating 21 commodities across the country, comes to a total of ₦975.61 billion. The Nigeria Commodity Exchange (NCX) has also been restructured to effectively aggregate excess outputs from the Bank's ABP-financed projects, with the objective of moderating food prices. The Bank also released N19.15 billion to finance 5 large-scale agricultural projects under the Commercial Agriculture Credit Scheme (CACS), bringing the total disbursements under the Scheme to ₦735.17 billion for 671 projects in agro-production and agro-processing.

In addition to these, the Bank disbursed the sum of ₦428.31 billion under the ₦1.0 trillion Real Sector Facility to 37 additional projects in the manufacturing, agriculture, and services sectors. The funds sourced from the Real Sector Support Facility - Differentiated Cash Reserve Requirement (RSSF-DCRR), were utilized for both greenfield and brownfield (expansion) projects under the COVID-19 intervention for the Manufacturing Sector (CIMS). Cumulative disbursements under the Real Sector Facility currently stand at ₦1.75 trillion, disbursed to 368 projects across the country. Under the 100 for 100 Policy on Production and Productivity (PPP), the Bank has disbursed the sum of ₦29.51 billion to 31 projects, comprising 16 in manufacturing, 13 in agriculture, and 2 in healthcare.

As part of its effort to support the resilience of the healthcare sector, the Bank also disbursed ₦8.50 billion to 6 healthcare projects under the Healthcare Sector Intervention Facility (HSIF), bringing the cumulative disbursements to ₦116.72 billion for 124 projects, comprising of 31 pharmaceuticals, 56 hospitals, and 37 other services. An additional tranche of N14.7 million was disbursed to 5 researchers under the Healthcare Sector Research and Development (HSRD) Grant.

To support households and businesses affected by the COVID-19 Pandemic, the Bank disbursed N21.66 billion to 19,685 beneficiaries, comprising 12,044 households and 7,641 small businesses under the Targeted Credit Facility (TCF) within the period. The cumulative disbursements under the TCF stood at N390.45 billion to 797,351 beneficiaries, comprising 660,096 households and 137,255 small businesses.

The Bank disbursed ₦11.11 billion to power sector players, under the

Nigeria Bulk Electricity Trading Payment Assurance Facility (NBETPAF), bringing the cumulative disbursements under this facility to ₦1.28 trillion. The sum of ₦12.64

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billion was also released to Distribution Companies (DisCos) under the Nigeria Electricity Market Stabilisation Facility – Phase 2 (NEMSF-2). The cumulative disbursement under the NEMSF-2 thus stood at ₦232.93 billion. Both interventions were designed to improve access to capital and ease the development of enabling infrastructure in the Nigeria Electricity Supply Industry.

Outlook

The overall medium-term outlook for the global economy remains uncertain as the war between Russia and Ukraine persists, alongside the ongoing COVID-19 pandemic. The sanctions against Russia are expected to have a considerable backlash against the global economy as Russia is an interconnected economy both in the global commodity and financial markets. The extent of the backlash has, however, not fully crystallized but presents a significant downside risk to the recovery of the global economy if the crisis is not resolved immediately.

Additionally, the COVID-19 pandemic remains a significant downside risk to global recovery as the virus continues to mutate into highly infectious strains. This is imparting a high level of uncertainty on economic agents, thus, creating inhibitions towards making the required investments to set the recovery on a sustainable path. As part of the lifting of restrictions associated with the COVID-19 pandemic, the strong recovery of aggregate demand has continued to pose a strong upside risk to inflation, as supply bottlenecks persist. This has been further aggravated by sanctions imposed on trade with Russia and other blockages associated with supplies from Ukraine. Consequently, inflation is expected to remain considerably high in the short term, even as some Advanced Economies progress with interest rate lift-off. The rise in both corporate and public debt in the Advanced Economies and Emerging Market and Developing Economies, is also a major threat to global financial stability as the risk of sustainability is heightened in the currently tensed global environment. Capital flows are thus, expected to be restricted as global financial conditions tighten over the short to medium term.

In the domestic economy, available data on key macroeconomic indicators suggest the likelihood of subdued output growth for the Nigerian economy for most of 2022. This is hinged on the dampening impact to the growth of rising energy prices in the domestic economy; tightening external financial conditions as some Advanced Economies pursue interest rate lift-off; as well as the persistence of legacy security and infrastructural problems. It is, however, expected that monetary and fiscal stimuli will remain in place to continue to support the recovery until the downside risks to growth and the upside risks to

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inflation dissipate substantially. Accordingly, the Nigerian economy is forecast to grow in 2022 by
3.24 per cent (CBN), 4.20 per cent (FGN), and 2.70 per cent (IMF).

The Committee's Considerations

MPC noted with concern the impact which the global price increase in petroleum and other products is having practically on all economies. The Committee further noted that this has resulted in imported inflation on the Nigerian economy and believes that specific actions need to be taken to ensure that this trend does not continue given the adverse consequences and aggressive rising price level could have on the cost of living and purchasing power of Nigerians.

Before the Russia-Ukraine war, MPC was optimistic that the moderate decline in inflation was sustainable due to the positive impact of good harvest on price levels. The MPC worries that, whereas global prices have gone up, this has been compounded by the shortage of supply of petroleum products. In the short run, MPC urges NNPC to take urgent steps to ensure an adequate supply of petroleum products in Nigeria so as to reduce the rate of arbitrary increase in the price of petroleum products by oil marketers. The Committee noted, with grave concern, the unprecedented rate of oil theft recorded in recent time, and its debilitating impact on government revenue and accretion to reserves.

In the medium-term, MPC is hopeful that the proposed take-off of the Dangote Refinery in the course of the year would help to improve the supply of petroleum products in Nigeria. MPC also notes that the rising price of diesel is compounded by the problem of inadequate electricity supply which has adversely impacted domestic prices. MPC advises the CBN Management and the fiscal authorities to take specific and urgent actions to avoid many power generating stations shutdown for turn-around maintenance, resulting in the current unwarranted shutdown of generating assets.

MPC is relieved that food inflation declined marginally due to good harvest. Although some scarcity is expected as we approach the planting season, the Committee is optimistic that with the high level of strategic grain reserves of the CBN, it is relieved that food prices would remain relatively moderated. MPC further advised Management to redouble its developmental finance initiatives aimed at boosting domestic food output which would help in moderating food inflation going forward, thereby moderating headline inflation.

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The Committee's Decision

While growth has continued to improve, members noted that inflation was confronted with upward pressure due to emerging risks within the domestic and external environment. The MPC, however, noted that the substantial upward push to price levels continued to be influenced by supply-side factors such as the scarcity of PMS, persisting insecurity and backlash from the Russia-Ukraine war. These require a careful and focused policy intervention to address and resolve. In this light, the MPC, urged the Bank to continue using the tools at its disposal, while increasing its collaboration with the fiscal authority to ensure that inflation is adequately reined in and growth is returned to a strong and sustainable path.

The Committee also encouraged the Bank to continue the use of its intervention mechanism to deploy funds to output-stimulating and employment-generating sectors of the economy.

In its consideration as to whether to hold, tighten, or loosen, MPC remained concerned that the global situation on rising prices may continue in the near term but may begin to moderate if deliberate and urgent actions are taken by both the monetary and fiscal authorities to correct the rising inflation. On another hand, Committee was satisfied that the use of the Bank discretionary CRR policy should be deployed more aggressively to control the level of money supply in the economy.

On tightening in order to rein in the rising price level, MPC was of the view that given the fragile state of the current GDP growth and the potential external and domestic headwinds from the Russia-Ukraine war, a contractionary policy stance would stifle the expected investment expansion needed to drive growth and absorb the shocks in Nigeria.

MPC also feels that not only would tightening reverse the steady improvement recorded in credit expansion, it is also of the view that tightening would not necessarily tame the inflation, particularly where the marginal decline is relatively not yet sustainable.

In the case of whether to loosen, the Committee feels that loosening would trigger further liquidity surfeit and fuel inflationary pressure as available funds outstrip the economy's absorptive capacity. MPC also feels that loosening would trigger FX demand pressure, as the excess liquidity would exert demand pressure on the FX market and trigger a naira depreciation which would also fuel inflation.

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Based on the foregoing, the Committee decided to adopt a hold stance as it would indicate a precautionary and consistent policy stance with the prevailing economic conditions particularly as further economic and financial shocks are exerted from the ongoing Russia-Ukraine war.

On the strength of the above considerations, three members voted to raise MPR by 25-basis points, one member voted to raise MPR by 50-basis points, while six members voted to hold all parameters constant.

The Committee thus decided by a majority vote to retain the Monetary Policy Rate (MPR) at 11.5 per cent.

In summary, the MPC voted to:

I. Retain the MPR at 11.5 per cent;

II. Retain the asymmetric corridor of +100/-700 basis points around the MPR;

III. Retain the CRR at 27.5 per cent; and

IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

21st March, 2022

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PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADAMU, EDWARD LAMETEK

Up to Q4 2021, the global economy remained on a steady path of recovery from the coronavirus-induced setbacks despite the mutations, especially the Omicron variant. Most countries had learned growth-friendlier ways of dealing with resurgence. Thanks to progress with vaccination, responses to Omicron generally entailed minimal activity restrictions and lockdowns. Trade continued to be robust and travels were relatively less restricted. Hence, the global economy grew by about 5.9 per cent in 2021 from a contraction of 3.1 per cent in 2020. Recovery was powered by robust consumer demand and trade, both underpinned by unprecedented high levels of policy support and rapid vaccine rollouts. However, a new threat, the war between Russia and Ukraine, surfaced in Q1, 2022. This war is currently the most important risk to the short- to medium-term outlook for global output growth. Its direct consequences including the sanctions imposed on Russia by NATO are several and potentially disruptive of the recovery process. Commodity prices have trended faster upwards, with crude oil price remaining over $100 p/b. Similarly, prices of some agricultural commodities such as wheat, corn, and sunflower oil, have come under severe pressure. The war has intensified uncertainty across financial markets globally. Although the IMF, in its January 2022 World Economic Outlook (WEO) update, envisaged a global growth of about 4.4 per cent in 2022, a downward revision appears likely in the next update on account of increased geo-political uncertainties.

Globally, the negative spillovers from the war are already being felt. Under the prevailing circumstances of widespread geo-political tensions and the coronavirus pandemic resurgence in parts of the world, there can be no guarantees that the global economy will maintain in 2022 the path and speed of recovery in 2021. Meanwhile, inflation continues to be a key concern for economic policy makers globally. Commodity prices are rising fast as investors embrace gold, and global demand for crude oil appears to outstrip supply, owing to the sanctions on Russia.

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Against this background, it is unclear if the drift towards policy normalization and anti-inflation posturing can be sustained by many central banks.

For the domestic economy, I see complications from the war unfolding in multiple directions. First, crude oil prices are high and could remain so for some time. Unfortunately, this is neither translating to more revenues for government nor increased accretion to the country's external reserves. Under this condition, the cost of subsidy on PMS will increase, further limiting the fiscal space for supporting growth. Other downside risks to growth emanating from the war in Ukraine include rising gas prices as well as cost of some intermediate goods. Manufacturing and agriculture could take a hit from these developments.

In view of these prospects, it appears to me that domestic output recovery is severely threatened. In effect, the CBN cannot at this time relent in supporting growth using monetary policy and development finance interventions which have so far proved to be among the economy's critical safety nets. I voted, therefore, at the March 2022 meeting of MPC to retain the extant monetary policy setting, while also urging the Bank to sustain its development finance interventions, to insulate domestic output and employment from major adverse spillovers from the war in Ukraine.

The recently released national accounts statistics for Q4 2021 lend enormous credence to the efficacy of the extant policy strategy of the Bank. Output recovery continued through Q4 from the near shut-down induced by COVID-19 in 2020. Real GDP grew by 3.98 per cent (year-on-year) in the quarter, surpassing expectations. This performance is attributable mainly to sustained policy support. However, oil GDP remained weak due to production shortfalls. The subsector is yet to reflect the recovery in oil prices due mainly to a variety of local impediments to production and theft. This carries important fiscal implication – government is spending more on subsidy as the cost of imported refined petroleum products has risen substantially, but revenue from crude oil sales has not really improved. This situation poses a risk to domestic economic recovery especially as it relates to the implementation of the Economic Sustainability Plan (ESP).

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Real GDP performance so far has been underpinned by credit expansion and declining interest rates, both attributable to development financing by the Bank and the recent monetary policy innovations – Loan-to-Deposit ratio (LDR), Differentiated Cash Reserve Requirements (DCRR) and Global Standing Instruction (GSI). The innovations have significantly transformed the credit landscape and continue to underpin activity rebound in several sectors. Despite the surge in credit, the banking system fundamentals have remained strong. At end-February, all major industry soundness indicators suggested resilience. Tier-one capital (the loss-absorbing component of capital) was significantly high as indicated by its proportion (85.74 per cent); capital adequacy ratio (CAR) remained robust at 14.5 per cent and the ratio of non-performing loans (NPLs) stood below the prudential limit of 5.0 per cent at 4.8 per cent.

My prognosis of the current geo-political uncertainty is not quite favourable. Even if the war in Ukraine is short-lived, sanctions will not immediately go away, and so would be their impact on, and consequences for the domestic economy. Importantly, two subsectors are likely to be most impacted – manufacturing and agriculture. Manufacturing, because prices of intermediate imports would remain elevated due to the disruption in supply. In addition, the sector relies heavily on energy – diesel and gas – both of which are impacted globally by the war. High energy costs directly constrain manufacturing. Agriculture could also take a hit as fertilizers and other inputs are impacted. Russia and Belarus are major players in the global market for potash, urea, and other chemicals required to produce fertilizers. Both countries are on the other side of the war. Given these scenarios, both sectors would require extra policy support to weather the storm ahead.

While acknowledging the challenge posed by inflation as evidenced by the increase in the core and headline measures of inflation in February 2022, I believe that the surest way to address this is to increase domestic production and ease the bottlenecks to free circulation of goods within the country. In this regard, not only should the flow of credit to the real economy be sustained, government must continue to tackle the problems of insecurity and infrastructure to reduce

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production and distribution costs. The recently established Infrastructure Corporation of Nigeria (InfraCorp), a dedicated privately managed infrastructure vehicle, offers a unique opportunity for addressing the infrastructure deficit. Governments (State and Federal) can leverage this vehicle, given the constraints on growing public revenue at the present.

A related policy imperative is the stability of the Naira exchange rate. So far, the administrative measures by the CBN have helped to calm the market. However, as real incomes fall abroad due to inflation, remittances could also decline. And so, those measures including the 'Naira 4 dollar' scheme, the deposit money banks' window for meeting business and personal travel needs, and most recently, the Bankers Committee's 'RT200 FX Programme', should be sustained.

Overall, I see the need for deeper reflections on the path of monetary policy in 2022 as there might be no easy choices given that risks are spread across both growth and inflation objectives. The extant approach by the Bank which seeks to ensure adequate liquidity in critical sectors has proved to be optimal, even though further innovations may be needed during the year to limit the impacts of the unfavourable external conditions. For now, my policy preference remains retention of all parameters. In effect, I voted to:

1. Retain the MPR at 11.5 per cent.

2. Retain the asymmetric corridor at +100/-700 basis points.

3. Retain the CRR at 27.5 per cent.

4. Retain the Liquidity Ratio at 30 per cent.

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2. ADENIKINJU, ADEOLA FESTUS

International Economic Developments

The global economy outlook has changed since the January 2022 meeting of the MPC. The Russia Ukraine conflict, which started on February 24, 2022, has added significantly to the uncertainties and risks around the long-run emergence of the global economy from the COVID-19 pandemic. The two countries, Russia and Ukraine are major suppliers of energy and agricultural commodities to not only Europe but the global economy. Since the onset of the war on February 24, energy and agricultural prices have risen by at least 30% on average: crude oil rose by 32%, wheat by 55%, corn by 21%, and sunflower oil by 30%. The sanctions imposed on Russia by the West have also compounded the supply and logistics problems affecting global trade. It also has the potential of raising interest rates on international capital flows.

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The implications of these developments include the following: global output is expected to moderate to 4.4% in 2022 from 5.9% in 2021, global inflation is expected to remain elevated in the short to medium term, and developing countries will also likely face food and energy crises. Inflation in advanced economies is already at record levels, averaging 3.9% in 2022, higher than the 2% inflation target. The crisis is also expected to negatively impact capital flows to developing economies, and slow down global trade recovery. Major financial market indices such as the S&P 500 and FTSE 100 took a major hit as investors migrated to safer assets including gold and silver. This has increased currencies volatility against the dollar.

Oil prices soared because of the crisis, amidst tight supply shocks. OPEC basket oil climbed to US$104/b as at 16th of March. Crude oil prices in 2022 are estimated to average US$135/b as against U$98/b. The United States and other Advanced Economies have been forced to release millions of barrels of oil from their strategic reserves in coordinated response to calm the oil market. However, this may only provide a short reprieve to the market in the long term.

Nigeria like many other developing countries is already feeling the impacts of the Russia-Ukraine crisis. This is manifesting in increase in domestic food prices, rising energy costs, and higher budget deficits. Hopefully, the newly opened Dangote Fertilizer company will mitigate the impact of the crisis on fertilizer prices. Ukraine is one of the largest exporters of urea and potash, major ingredients to produce fertilizer.

Domestic Economic Developments

Bank Staff report on Economic Developments and Outlook showed that real output grew by 3.98% in 2021Q4 compared with 4.03% in2021Q3. The growth was largely driven by the non-oil sector. The oil sector contracted for the 7th consecutive quarter. Headline inflation also rose to 15.70% in February 2022 from 15.60% in January 2022, driven by increase in core inflation. The manufacturing PMI and non-manufacturing PMI slowed in January 2022 relative to the previous month. This is a reflection of weaker sentiments and a worsening employment

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outlook. The gross external reserves decreased marginally by 0.46% to US$39.44billion as of March 17, 2022, from US$39.62 billion by end-February 2022, due to increased third-party payments and interventions. This decrease occurred at the back of over 30% increase in the world price of crude oil.

Index of electricity production, electricity generation and electricity consumption rose in February 2022 relative to January 2022. The increase in generation and consumption was attributed to the continuous metering of households under the National Mass Metering Programme, and the upgrade and maintenance of various transmission and distribution networks across the country.

The monetary base grew by 0.20% by end-February 2022, Monetary base stood at N13,635.91 billion at end of February, but 9.66% below the 2022 provisional benchmark of N15,094,69 billion. Net claims on government grew by 11.92% at end-February 2022. M3 growth in February was 2.12% annualized 12.72% was below the 2022 benchmarks of 15.21%. Domestic claims rose by 6.82% in February or annualized 40.92% against the provisional benchmark of 16.23%. Claims of other sectors annualized 29.28% against 18.05%, benchmark, and on the central government by annualized 71,52% as against 11.42%.

The OBB rate rose from 6.10% on 22-February to 11.49% on 18 March 2022, reflecting tight liquidity in the banking system. Trade balance and current account balance also showed improvements following the sustained rise in commodity prices, particularly crude oil, in the international market.

Government fiscal operation showed that fiscal deficit stood at N7.6 trillion from January to December 2021. The deficit was higher than FGN's retained revenue which stood at N4.8 trillion. The deficit was 57.3% above budget. Government expenditure rose from N951.14 billion in January 2022 to N952.60 billion in February 2022. However, FG retained revenue declined from N405.51 billion to N371.67 billion over the same period, leading to increase in budget deficit and public debt. The decline in revenue was attributed to decline in collections from PPT& Royalties and corporate taxes.

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The Report on Banking System Stability showed that the banking system remains robust, stable, and resilient. All metrics of Financial System Stability including Capital Adequacy Ratio, Non-performing loans ratio, liquidity ratio, and returns on assets and returns on equity are in line with the prudential guidelines. Moreover, measures of bank size, gross assets, gross deposits, and gross credit continued their upward trajectories. There is rising costs of credit as interest bands narrowed. The Other Financial Institutions continue to provide significant amount of credit to households and small enterprises in the economy.

My Concern

Bank Staff forecast that real GDP will rise by 3.24% in 2022 at an assumed oil price of US$80/b. The World Bank and the IMF projected 2.50% and 2.70% respectively. The Federal Ministry of Finance, Budget and National Planning forecasted growth of 4.20% for 2022. Due to the ongoing Russia Ukraine crisis, the Bank Staff forecast that inflation will continue to rise in the medium term to 16.84% by May 2022.

There is no doubt that current recovery is fragile. Projected real GDP growth is not strong enough to support poverty reduction and reduce unemployment rates in the economy. The uncertainty and downside risks to the economy are also quite high. This is compounded by the huge insecurity across the country.

However, I do not believe that we can totally take our eyes away from the rising and persistent inflation build-up in the economy. While I agree that the current inflation is largely supply-driven, we need to deal with inflation expectations, which if not properly anchored, will compromise long-term investment and economic growth. Headline Inflation has risen consistently since November 2021. The February inflation figure is the fourth straight month of rise in the average price level. There is a build-up of inflation expectations in the economy. This will be compounded by the increased spending associated with electioneering in Nigeria. The CBN, being the only institution vested with the responsibility to maintain price stability, must address this inflationary tendency.

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The global economy is also changing rapidly, and countries are positioning themselves for the emerging new order. Since 2020, over 40% of central banks across the world have increased their policy rates. Some of our comparator countries in Africa have also increased their policy rates. This will impact on relative yields between Nigeria and those countries and affect portfolio investment flows. The speed of normalisations indicated by the Federal Reserves and other central banks in advanced economies also means that we cannot realistically keep interest rates at the present level in the face of rising domestic prices.

I am also concerned about the rising share of government in total credit to the domestic economy. Credit to the government in February when annualized is far above the provisional benchmark for 2022. The rise in public debt is a constraint on future income and economic growth. I believe that we must signal to the government the costs of deficit financing and continue to prod the government to explore alternative financing mechanisms for infrastructural spending.

The transmission of the imported food prices to Nigeria confirmed the importance of maintaining food security in the country. CBN interventions in critical agricultural products like wheat should be sustained. Food security should be a national priority with partnerships of researchers, government, and the private sector working together to deepen the agriculture value chain. More farmers should be able to access the intervention funds across the country. Intervention should extend to the procurement of inputs, storage, and protection of farmers against price volatility.

As I indicated in my January 2022 Statement, the costs of fuel subsidy and its general impacts on investments in the downstream petroleum sector need to be addressed. Also is the massive loss of oil output to theft, vandalism, and other criminality that has threatened fiscal flows from crude oil, as well as investment in onshore production. This is not just going to affect current revenue from oil,

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but if not urgently addressed would have massive impacts on investments and future revenue flow from oil.

My Vote

As much as I am concerned about the current fragility of our growth recovery as well as the underlying driver of current inflation, there is a need for the Bank to be prepared to anchor inflation expectations in the economy. The Bank must signal a change in the current direction of monetary policy if the current inflation trend endures. Hence, I cast my vote to increase MPR by 25 basis points, and retain all other monetary parameters at their extant values:

1) Raise MPR by 25 basis points, from 11.5% to 11.75%
2) Retain CRR at 27.5%
3) Retain LR at 30%
4) Maintain an asymmetry corridor around the MPR at +100/-700 basis points..

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3. AHMAD, AISHAH N.

The March 2022 Monetary Policy Committee meeting held within an environment of elevated global risks given heightened geopolitical tensions from Russia's invasion of Ukraine, amidst persisting macroeconomic uncertainties associated with the COVID-19 pandemic.

Sanctions against Russia as a result is expected to have considerable impact on global recovery in view of the strategic role of both countries in the global commodity and financial markets. While some effects of the conflict may not fully materialize in the near term, the resulting spike in food and energy prices is expected to worsen global inflation conditions. Policy makers are, thus, faced with striking the delicate balance between containing inflation and supporting economic recovery, which remains a difficult policy option across jurisdictions. This dilemma, combined with legacy trade and supply chain disruptions and rising debt levels, exerts further pressure on global economic prospects. Thus, earlier output growth projections of 4.4 and 3.8 per cent for 2022 and 2023 respectively, by the International Monetary Fund (IMF), may be derailed.

Notwithstanding persistent global risks, the domestic economy continues on its path of recovery. According to the National Bureau of Statistics (NBS), Real Gross Domestic Product (GDP) grew by 3.98 per cent (year-on-year) in the fourth quarter (Q4) of 2021, compared with 4.03 per cent in the third quarter (Q3) of 2021 and 0.11 per cent in the corresponding period of 2020. This represents the fifth consecutive quarter of real output expansion, following the exit from recession in Q4 of 2020.

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The positive performance was driven largely by growth in the non-oil sector by 12.36 per cent in Q4 2021 from 10.99 per cent in Q3 2021. Quarrying, transportation & storage; education; financial & insurance services; information & communication; as well as a steady rebound in manufacturing and mining activities were key to the growth of the non-oil sector.

Although the Manufacturing Purchasing Managers' Index (PMI), remained above the 50-index points benchmark in February 2022, it moderated slightly to 50.1 index points from 51.4 index points in January 2022 indicating the need for sustained stimulus to strengthen the positive growth trajectory considering persisting headwinds.

Indeed, the Bank's development finance interventions have combined well with the Federal Government of Nigeria (FGN) growth initiatives under the Fiscal Sustainability Plan to revive and sustain domestic economic activity.

Headline inflation (year-on-year) rose by 10 basis points to 15.70 per cent in February 2022 from 15.60 per cent in the previous month, driven largely by a rise in the core component to 14.01 per cent in February 2022 from 13.87 per cent in January 2022, while food prices moderated marginally. The uptick in core inflation was mostly due to rising energy prices as a result of the recent scarcity of Premium Motor Spirit (PMS), rise in the cost of Automotive Gas Oil (AGO), and hike in electricity tariff.

While the recent spike in domestic prices may be transitory, it is prudent to take forward-looking policy decisions to mitigate unforeseen adverse price developments and manage inflation expectations. Sustained interventions by the Central Bank of Nigeria (CBN) to improve food supply alongside fiscal efforts to contain long standing structural constraints are important considerations in that regard.

Of note also is the sustained growth in broad money supply (M3), to 2.12 per cent in February 2022, compared with 1.74 per cent in January 2022, a development that threatens the already sticky price movement, requiring

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prompt action to forestall the derailment of macroeconomic gains recorded thus far.

Furthermore, the monthly weighted average Open Buyback (OBB) and Inter-bank Call rates decreased to 5.81 and 9.30 per cent in February 2022 from 6.00 and 16.00 per cent in January 2022, respectively. The decrease in the rates signifies loose liquidity conditions in the banking system, which could worsen inflation conditions if unchecked. It would also be important to sustain the liquidity management actions of the Bank, which have helped prevent overheating of the economy following increased liquidity injections in response to spillover effects of the pandemic.

The recently launched **"Race to US$200 billion in FX Repatriation"** policy of the CBN designed **to boost non-oil export receipts** is expected to improve foreign exchange supply and strengthen relative exchange rate stability. This policy complements fiscal sector initiatives to diversify the economy and enhances the renewed focus on improving domestic economic productivity.

The financial system remains resilient and continues to provide significant support for the domestic recovery. Data provided by Bank staff showed stability in broad financial soundness indicators and sustained improvement in asset quality, alongside growing credit to the private sector. Capital adequacy as at February 2022 was robust at 14.40 per cent. Industry liquidity was also strong at 43.5 per cent over the same period while the non-performing loans ratio declined further to 4.8 per cent in February 2022, from 4.94 per cent in December 2021. This reflects the case-by-case review of regulatory forbearance, effects of the Global Standing Instruction (GSI) policy, and sound industry risk management practices.

Notably, total assets rose to N62.01trillion in February 2022 from N52.32 trillion in February 2021, while total deposits rose to N39.38trillion from N32.69trillion over the same period. Total credit also increased by N4.13 trillion between end-February 2021 and end-February 2022 with significant growth in credit to

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manufacturing, general commerce, and oil & gas sectors. The continued growth in credit particularly to output enhancing sectors is expected to further support economic recovery. However, sustained regulatory vigilance is required to mitigate any potential crystallization of credit risk in the financial system from lingering macroeconomic risks.

Policy Decision

In summary, spillover effects from the Russia – Ukraine conflict, in the face of lingering risks from the COVID-19 pandemic, present fresh threats to global economic recovery. On the domestic front, significant monetary and fiscal stimulus have helped output maintain its recovery, although age-long structural challenges continue to burden domestic prices. In view of the slow growth environment, it is obvious that output considerations are germane at this time; however, it may be more important to contain rising inflation given the growth retarding level of current price developments.

The Committee, therefore, has a window to use the tools at its disposal to fight inflation promptly while keeping an eye on output growth. A marginal interest rate hike, thus, signals the need to curb inflation and could tangentially moderate foreign exchange pressures in the medium term by attracting foreign investors. While I acknowledge that a rate hike could potentially have a negative effect on real sector lending prices, this is mitigated by the Bank's interventions which has broadened affordable access to loans. I am, therefore, convinced that sustaining these interventions, alongside a marginal increase in the monetary policy rate to combat inflation, would combine well to strengthen the recovery process.

Thus, I vote to raise the Monetary Policy Rate by 25 basis points from 11.50 per cent to 11.75 per cent and retain all other parameters at the existing levels - an asymmetric corridor of +100 and -700 basis points around the MPR; CRR at 27.5 per cent, and Liquidity Ratio at 30 per cent.

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4. ALIYU, AHMED

INTERNATIONAL AND DOMESTIC ECONOMIC DEVELOPMENTS

The March 2022 MPC meeting took place in the context of emerging shocks to the global economy fuelled by the Russian – Ukraine war. While the COVID-19

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pandemic seemed to be abating, the nascent recovery of the global economy is confronted with new risks, as a result of the conflict. Due to the strategic importance of the two countries in world trade, the war is expected to have a significant impact on global supply chain, following the myriad of trade and financial services sanctions against Russia.

The Russian – Ukraine crisis is expected to lower global growth and raise inflation in the short term, through higher energy and commodity prices, lower confidence, and disruption to international trade. Although global growth is estimated to remain in positive territory, the IMF has hinted at cutting its next forecast to account for the economic consequences of the conflict. Currently, global growth is predicted to decelerate to 4.4 percent in 2022 from 5.9 percent in 2021. Also, growth in the Advanced Economies is projected to moderate to 3.9 percent in 2022 from 5.0 percent in 2021and further to 2.6 percent in 2023, while Emerging Markets and Developing Economies (EMDEs) are expected to grow by 4.8 percent in 2022 from 6.5 percent in 2021and down to 4.7 percent in 2023.

Consequently, global inflation surged with nearly all agricultural commodity price levels rising. Inflation is expected to accelerate in many countries in the short to medium term; much of it via import pass-through to domestic prices following the sanctions on Russia and escalating supply chain bottlenecks. The conflict has already affected food prices in the Middle East and North Africa as many countries in the region depend on both countries for wheat and other grains. In Egypt, for instance, inflation increased to 8.8 percent in February 2022 from 7.3 percent in January as a result of the rise in the cost of wheat.

Current data show elevated rates of inflation (above the 2.0 percent long-run targets) in the Advanced Economies, with the US and Eurozone inflation rates at 7.9 and 5.9 percent, respectively, in February 2022, while the UK inflation rate stood at 5.5 percent in January 2022. On average, inflation in Advanced Economies is forecast to rise to 3.9 percent in 2022 from 3.1 percent in 2021,

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while for EMDEs inflation is projected to increase to 5.9 percent in 2022 from 5.7 percent in 2021 (January 2022, World Economic Outlook).

On global trade, the dominant role Russia and Ukraine play in the world's supply of oil and gas, wheat, corn, sunflower oil, fertilizers, and their related inputs, as well as metals, amongst others, would significantly influence macroeconomic outcomes in 2022. A protracted war in Ukraine could impact the production of grains and reduce food supplies to Europe, Africa and Asia. Already, both countries which supply about 30 percent of the world's wheat, have declared to suspend export of the commodity to strengthen their own food security.

As a result, wheat prices, month-on-month, increased by 4.35 percent in February 2022, while corn prices rose by 5.78 percent in the same period. Crude oil spot prices are expected to average US$135 per barrel in 2022, revised from US$98 per barrel. Accordingly, global trade which recovered strongly in 2021, reaching a record level of about US$28.5 trillion, is expected to moderate in 2022.

Global financial conditions are anticipated to tighten in the coming months, as higher inflation is likely to speed up the normalization of interest rates and quantitative tightening by most Advanced Economies.

THE DOMESTIC ECONOMY

Economic performance remained strong in Q4 2021 as real GDP year-on-year grew by 3.98 percent in Q4 2021 (above staff forecast of 3.1 percent growth) compared with a growth of 4.03 percent in Q3 2021. Growth in Q4 2021 was driven largely by the strong performance of the non-oil sector, following the contributions of Services (55.11 percent), Agriculture (26.84 percent), and Industry (18.05 percent) to real GDP growth. Quarter-on-quarter, the economy grew by 9.63 percent in Q4 2021.

Market sentiments dipped slightly in the review period, with the marginal decline of the Manufacturing Purchasing Managers Index (PMI) to 50.1 points in February 2022, relative to 51.4 points in the preceding month, although the

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index was marginally above the 50 points benchmark. The non-manufacturing PMI also moderated to 49.0 points in February 2022 compared with 49.1 points in January.

Recent price developments show an increase in headline inflation to 15.70 percent year-on-year in February 2022 from 15.60 percent in the previous month. The increase in inflation was primarily due to the rise in energy prices as reflected by the increase in the core index to 14.01 percent in February, from 13.87 percent in January 2022. Food inflation, however, declined marginally to 17.11 percent in February from 17.13 in January 2022, largely on account of sustained interventions in the agricultural sector and the resulting improvement in food supply.

Monetary aggregates show that Broad Money (M3) grew by 2.12 percent or 13.09 percentage points below the 2022 provisional benchmark of 15.21 percent. The development was driven by the rise in Net Domestic Assets (claims on Government, Other Sectors, and Other Items). On money market developments, the average Open Buy Back (OBB) rate, month-on-month, declined to 5.81 percent (-270bps) in February 2022, due to favourable liquidity conditions in the banking system.

The performance of key Financial Soundness Indicators (FSIs) in the review period, points to a strong, safe and sound banking system. The industry Capital Adequacy Ratio (CAR) at 14.42 percent at end-February 2022 remained above the 10.0 percent regulatory benchmark. Non-Performing Loans (NPLs) improved further to 4.48 percent in February 2022 from 4.94 percent at end-December 2021, and better than the 6.38 percent recorded a year earlier on account of sound macro-prudential practices. Industry Total Credit improved by 19.53 percent, year-on-year, due largely to increased industry funding base and compliance with the Loans to Deposit Ratio (LDR) directive.

On the external sector front, gross external reserves increased marginally by 0.76 percent to US$39.62 billion in February 2022, from US$39.32 billion in January 2022. The reserves cover 7.41 months of import of goods and services and 11.47

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months of import of goods, only. Activity in reserves was mainly influenced by FX swaps and crude oil-related taxes and penalties, following the recently rising oil prices. Trade balance improved to US$0.78 billion in January 2022 from US$0.20 billion in December 2021, due to increased export receipts following the sustained rise in commodity prices, particularly crude oil prices.

CONSIDERATION FOR VOTING

In deciding on the appropriate policy choice, I considered the various competing objectives of monetary policy, which include: price stability, output growth, and exchange rate stability. The increase in inflation from 15.60 percent in January to 15.70 percent in February 2022 is indeed worrisome. Following the December 2021 uptick which moderated in January, inflation appears to be persistent in view of the February 2022 outcome.

Under the circumstances, a tightening policy stance seems to be appropriate to address the current inflationary pressure. But the factors driving inflation at this time are more of structural influences and exacerbated by external shocks. The National Bureau of Statistics inflation report cited the recent scarcity and increases in the price of refined petroleum products as the major driver of inflation in February 2022.

Although growth in real GDP has been sustained for five consecutive quarters since the exit from recession in Q4 2020, the recovery, albeit strong, remains fragile on account of new headwinds that constitute downside risks to the indicator. These include pressure points arising from the Russian – Ukraine war as evidenced in the disruption of the global supply of commodities; the pass-through of rising international prices to domestic inflation, as well as the lingering global pandemic.

There is a need to calibrate policy responses to achieve an optimum mix of policies that will address the Bank's mandate of price stability conducive to economic growth. I am cautious of the impact of inflation on the economy, and therefore, remain committed to a declining inflationary trend. I share the argument that the current inflationary pressure is driven by structural rigidities in

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the economy. Hence, pursuing a tight policy stance could discourage investment which would be detrimental to growth. Given the temporary pressure on headline inflation, activities geared at addressing structural factors causing supply-side shocks and inflation should be the focus of policy.

In the light of these developments, I am of the view that the current pro-growth policies of the Federal Government should be sustained and enhanced to ensure adequate domestic production and supplies. This would insulate the economy from the looming danger of imported inflation and the associated downside risks to growth arising from the adverse fallouts of the Russian - Ukraine war.

To lower fiscal burdens, increase accretion to reserves, and ease pressure in the foreign exchange market; policies and interventions to boost non-oil exports through incentives for value-added production, concessionary facilities to ramp up local production of exportable, support for private sector-led initiatives in new refineries and fertilizer plants, and continuous targeting of genuine demand for foreign exchange, are expedient and should remain the focus of policy.

In the light of the foregoing considerations, I voted to maintain the status quo in all the policy parameters, as follows:

- MPR at 11.5 per cent
- The asymmetric corridor at +100/-700 basis points around the MPR
- Liquidity ratio at 30.0 per cent
- CRR at 27.5 per cent

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5. ASOGWA, ROBERT CHIKWENDU

Background:

Since the last MPC meeting in January 2022, two major issues have reshaped the global and domestic economic outlook. First, is the resurgence of the highly transmissible Omicron variant of COVID-19 in some Asian countries since late January 2022, and the second, is Russia's unprovoked invasion of Ukraine in late February. Both of these appear to have introduced new layers of uncertainties

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to the general economic outlook. At the start of 2022, global recovery was fully underway, albeit with variations across regions. Unfortunately, recent events have heightened uncertainty and monetary policy choices in some countries now reflect these new geopolitical risks. Prior to the war, many central banks have been tightening their monetary policy stance and withdrawing stimulus packages so as to stem the rising inflationary pressure. With clear predictions on the near-term consequences of the geopolitical tensions, some central banks are now inclined toward a more cautious stance in their approach to interest rate hikes. As such, my personal opinion at this MPC meeting reflects the recent movement of economic factors at the international and domestic levels especially an assessment of the durability of sudden growth shocks arising from these new uncertainties. The detailed considerations are explained below.

Assessment of the Global Economy:

Available information suggests some moderation of economic activities during this first quarter of 2022, especially in the wake of Russia's invasion of Ukraine. International prices of commodities such as crude oil, raw materials, and metals have risen very significantly. The global financial and capital markets have increasingly become volatile since February 2022. The disruption of exports from the Black Sea together with the sanctions on Russia is already affecting the supply of wheat and other grains, which may further drive up global food prices.

Before the recent crisis, global growth recovery looked good and the 2021 fourth quarter output results for many countries showed positive momentum despite the risks associated with the COVID-19 pandemic and longer-lasting inflationary pressures. CBN staff report indicates that in the United States of America- USA, output grew by 7.0 percent in the fourth quarter of 2021, compared with 2.3 percent in the third quarter. Similarly, in Japan, output grew by 1.3 percent in the fourth quarter of 2021, compared with a contraction of 0.7 percent in the previous quarter while in China, output also strengthened by 1.6 percent in the fourth quarter of 2021 compared with 0.7 percent in the third quarter. In the United Kingdom, however, output growth remained unchanged

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at 1.0 percent in the fourth quarter of 2021, similar to the third quarter results, while in the Euro Area, the economy surprisingly slowed down in the fourth quarter of 2021 with a growth of 0.3 percent as compared with 2.3 percent growth recorded in the third quarter of 2021.

Early January 2022 forecasts by the IMF in its 'World Economic Outlook' revised global output projections for 2022 downwards to 4.4 percent from its earlier forecast of 4.9 percent, mainly because of the withdrawal of accommodating monetary policy stances in many countries as well as the prolonged supply bottlenecks. This IMF projection did not however factor in the ongoing war in Ukraine which may have altered the global growth outlook for the first quarter of 2022. There is a widespread belief that global growth is now expected to be weaker than the predictions in January 2022, owing to export market disruptions and greater uncertainty amongst firms and households, especially in Europe.

Official output figures for the first quarter of 2022 in many countries are not yet out, but some high frequency indicators are already pointing toward a slower pace of growth at the start of 2022. For instance, the global composite purchasing managers' index (PMI) slipped to an 18-month low of 51.4 in January 2022 but recovered to 53.4 index points in February 2022 with weakness in both services and manufacturing sectors. The recovery in the global PMI in February 2022 is however attributed to improvements in household consumption in the United States and in the Euro Area, but is now expected to moderate in March 2022 due to the ongoing conflict in Europe.

Global inflationary pressures remained high at the start of 2022. Prior to the recent invasion of Ukraine by Russia, the IMF in its January 2022 'World Economic Update' had also revised its inflation projections for both advanced, emerging market and developing economies (EMDEs). The new projection shows that inflation is expected to reach 3.9 percent in advanced economies and 5.9 percent in Emerging Market and Developing Economies (EMDE) in 2022, up from the December 2021 earlier forecasts of 1.6 percent and 1.0 percent respectively. CBN staff report shows that in the USA, year-on-year inflation

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increased to 7.5 percent in January 2022 as compared with 7.0 percent in December 2021, while in the UK, year-on-year inflation also rose to 5.5 percent in January as compared with 5.4 in the previous month. In the Euro Area, year-on-year inflation rose to 5.8 percent in February 2022 compared with 5.1 percent in January 2022. In India, year-on-year inflation rose to 6.01 percent in January 2022, compared with 5.66 percent in the previous month, thus for the first time breaching the Reserve Bank of India's long-run inflation target of 2.0-6.0 percent. Since the invasion of Ukraine, commodity and energy prices have increased substantially especially as Russia was a significant exporter of gas, supplying close to 40 percent of gas used in the Euro Area and also the second largest global crude oil producer. By the 7th of March, the price of Brent crude oil had reached a day high of 129 dollars per barrel and has hovered around 100 dollars per barrel since then. Similarly, gas spot prices in Europe jumped to about 240 Euros per MWH before declining to around 115 Euro per MWh by the third week of March. Global food prices, as measured by the FAO Food Price Index, rose by around 5 percent in February compared with January 2022 and are expected to rise further in March.

Global financial and capital markets have recently become volatile because of the uncertainty associated with the war in Ukraine. Global equity indexes have fallen since February with corporate bond risk premiums rising. The VIX Index, a measure of volatility in stock markets, has risen to a one-year high in February 2022. A recent rush towards safe-haven assets has also driven the price of gold to astronomical levels. CBN staff report shows that the earlier trend of exchange rate depreciation against the US dollar observed since the end of 2021 has continued for many countries. For instance, in the UK, the sterling effective exchange rate had fallen by 1.7 percent between January and March 2022.

In terms of monetary policy choices, prior to the Russia-Ukraine war, many central banks have commenced a tightening regime on the back of higher inflation and higher inflation expectations. Even up to March 2022 amidst the

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tensions, several central banks have continued to tighten policy rates. The Bank of England increased its rate to 0.75 percent in mid-March 2022 from 0.50 percent in February which is the third recent hike. In the USA, the Federal Open Market Committee (FOMC) voted in late March to increase the target range for the federal funds rate by 0.25 percentage points. On the 2nd of March, the Bank of Canada increased its bank rate to 0.75 percent while the Bank of Mexico raised its target rate by 50 basis points by mid-March. The European Central Bank kept interest rates unchanged in early March, but was clear on discontinuing net asset purchases under the Pandemic Emergency Purchase Programme (PEPP) at the end of March 2022. Looking forward, we expect that with the Russia-Ukraine conflict, central banks of many countries will be inclined to adopt a more cautious stance in their earlier plans for policy rate hikes, especially with the new uncertainties about the growth outlook in 2022.

Domestic Economic Assessment.

Turning to the domestic trends, I have considered key indicators comprising, the real sector, the external sector, fiscal and financial sectors as well as the inflationary outlook.

On the **Real sector**, growth remains on a recovery path following a strong performance in the fourth quarter of 2021 as real GDP grew by 3.98 percent (year-on-year), while on a quarter-on-quarter basis, it grew by 9.63 percent. This growth performance in 2021 was driven mainly by improvements in the non-oil sector, especially the services and agricultural sectors on the back of demand-easing measures. Real GDP estimates for the first quarter of 2022 may still take some time before it is released but on balance, growth is still expected around the previously forecast range as the impact of the ongoing Russia-Ukraine war may likely be limited in the first quarter. Available high frequency real sector indicators for 2022 already point to the direction of growth momentum in the first quarter of 2022. The manufacturing PMI stayed in the expansion zone in February 2022 at 50.1 index points, though it moderated from the 52.0 index points in December 2021 and 51.4 index points in January 2022. Agricultural

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prospects also remain strong in 2022 with estimated larger yields and value for key commodities. Where the war lasts longer than necessary, there may be improvements on oil revenue receipts for the country, if the current oil thefts are addressed and production attains the quota level. However, global supply chain disruptions as a consequence of the war may threaten the recovery path of many African countries.

On the **external sector**, the forecast is that it will remain strong in 2022, given the current resilience of the Balance of Payments (BOP). CBN staff report shows that in the third quarter of 2021, the BOP as a percentage of GDP increased significantly to 4.81 percent from the low level of -2.22 percent of GDP in the second quarter of 2021. This is attributed to the increase in the current account balance from a deficit of 2.21 percent of GDP in the first quarter of 2021 to a surplus of 0.36 and 3.35 percent of GDP in quarter 2 and quarter 3 of 2021 respectively. A low but manageable current account balance was also obtained in quarter 4 of 2021 on the back of a maintained goods trade surplus. The value of total imports in quarter 4 of 2021 increased by 11.33 percent compared to the value recorded in quarter 3, while for exports, the value in quarter 4 increased by 12.27 percent when compared to the value recorded in quarter 3 of 2021. A drawback is the capital and financial account which has not been in a surplus position for a long time now. The financial account according to the CBN staff report recorded a net borrowing position in the third quarter of 2021 as compared with a net lending position in the second quarter. The net inflow of Foreign Direct Investment (FDI) has been very low while there was a substantial reversal of FPI flows from the country in the fourth quarter of 2021. This poor trend is apparently due to the unconducive domestic investment climate which appears to be worsening.

Naira exchange rate movements remain under control despite the increasing global financial market uncertainty since the start of the Russia- Ukraine war. The Central Bank of Nigeria's managed-float regime through interventions in recognized windows has been able to contain excessive exchange rate

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volatility. Although there was a slight month-on-month depreciation of 1.21 percent in the exchange rate between January and February 2022, it is still comparatively less than the currency depreciation experienced in other developing countries such as Ghana, Kenya, India, Philippines within the same period. What is important in the coming months is for the Bank to further strengthen exchange rate stabilisation in line with market mechanisms.

The gross external reserves increased by 0.76 percent between End-January 2022 and End-February 2022. This marginal increase looks low given the skyrocketing international crude oil prices, but is explained by the large oil thefts in the Niger Delta Region which has diminished the possible benefits to the country as production level has dropped consistently. However, the current level of reserves is still adequate to shield the economy against external vulnerabilities.

On the **fiscal sector**, the escalating deficit projection in the first quarter of 2022 is already taking the same shape as the precarious situation witnessed in 2021. Available data show that the Federal Account Allocation Committee (FAAC) distribution for February 2022 represents a decline of 10.25 and 9.98 percent in total amount disbursed, compared with the corresponding months of 2021 and 2022. This early warning trend indicates that unless there are strengthened tax collection efforts and/or targeted expenditure realignments, the budget deficit levels in 2022 will surpass the 57.3 percent recorded in 2021. Already, Nigeria is being mentioned as one of the countries that may likely move into debt distress soon, given the staggering 92.6 billion dollars, public debt stock as at the end of 2021.

The **financial sector** remains strong similar to the position at the last MPC meeting especially looking at the banking and capital market developments. The banking sector appears sound and resilient with a considerably high Capital Adequacy Ratio (CAR) and Liquidity Ratio in February 2022, in line with prudential requirements. With a persistently lowering non-performing loan ratio (NPL) since 2021 despite the shocks caused by the COVID-19 pandemic, the

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asset quality of the banking system is now one of the strongest in Sub-Sahara Africa. Bank intermediation continued to improve in February 2022 with industry total credit increasing from 24.6 trillion Naira in January 2022 to 25.25 trillion Naira in February 2022. The extension of the moratoria on bank loans up to the middle of 2022 as part of the COVID-19 relief measures continues to alleviate the burden on the borrowers impacted severely by the pandemic.

The equity market is also good, similar to the position at the last MPC meeting with market capitalization and the All Share Index increasing substantially in early March 2022 as compared with the levels in January 2022. For the monetary conditions, the current levels indicate a tighter space as broad money (M3) grew by only 1.7 percent in January 2022 which is even below the provisional benchmark for 2022 as compared with the growth of 12.63 percent recorded in December 2021. This recent low level of monetary growth may also be reflective of the current state of low household and business demand.

The **domestic inflation** however gathered momentum in February 2022 as headline inflation rose to 15.70 percent which was a slight increase from the 15.60 percent recorded in January 2022. While the food inflation component reduced marginally during this period, the core inflation component increased to 14.01 percent in February from 13.87 percent recorded in January 2022 and this upward pressure stems from high fuel prices, particularly PMS and AGO. On a month-on-month basis, food inflation however increased marginally in February. For now, the inflationary pressures continue to be influenced more by supply-side disturbances rather than demand-side pressures. We expect inflation in 2022 to remain fairly under control if the supply distortions are addressed but there are still several risks to the inflation outlook that requires policy vigilance, including on the domestic side; the rising cases of terrorism and banditry, and on the international side, the global supply chain disruptions.

Policy Decision:

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My policy decision is based on the above assessment of international and domestic developments that are likely to affect growth and inflation outlook in 2022. Thus, weighing the downside risk to the domestic growth recovery and the upside risk to the inflation outlook over the short to medium term, I believe that a continuation of the ongoing accommodative stance by the Central Bank is the best option for now. I will therefore vote to:

- Retain the MPR at 11.5 %
- Retain the CRR at 27.5%
- Retain the Asymmetric Corridor at +100/-700 basis points
- Retain the Liquidity Ratio at 30.0%.

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6. OBADAN, MIKE IDIAHI

INTRODUCTION

Until the invasion of Ukraine by Russia on 24th February, 2022 and the ensuing war, the major challenges facing the global economy were the supply bottlenecks that accompanied the covid-19 containment measures and the significant rise in inflation. The latter was driven by rising aggregate demand, supply chain disruptions and the huge fiscal and monetary injections by various countries aimed at dealing with the debilitating effects of covid-19, particularly the recession which many economies had to grapple with. But then, most of the Advanced Countries were planning to or had embarked upon combating the inflation by normalising their monetary policies. For example, the Bank of England, on 10th February, 2022, raised its policy rate by 25 basis points to 0.5 percent from 0.25 percent, while the United States Federal Reserve Bank (FED), on 14th March, 2022, implemented its long-awaited decision by raising its policy rate by 25 basis points to 0.25 – 0.5 percent to stem the rising inflation and improve labour market conditions. In addition, the Fed is expected to completely taper its US$120 billion monthly asset purchase by the end of March. Most of the emerging markets and developing economies (EMDEs) were also shifting towards tightening monetary policy in response to rising inflation. Examples are South Africa, Russia, and Ghana in light of rising inflation and anticipated rising capital outflows associated with US monetary policy normalisation. Then, global economic recovery was gaining momentum with notable improvements in growth and growth projections, Global Purchasing Managers' Index and manufacturing. Now, global economic recovery is being dampened by two developments: lingering covid-19 pandemic although many countries have begun to relax restrictions on economic activities and travel, and the Russian-Ukraine war with the associated escalating supply chain disruptions.

INTENSIFICATION OF GLOBAL UNCERTAINTIES AND VULNERABILITIES

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As a result of the Russian-Ukraine war, greater uncertainties have enveloped the global economy. The war has intensified geopolitical and economic uncertainties in the midst of sanctions imposed on Russia by the Western countries such as the US, UK, and the European Union member states. The challenge to the global economy has arisen through the channels of upward pressure on extant high levels of inflation, negative impact on growth, high energy prices, reversal of capital flows to EMDEs, and accentuation of the impact of covid-19.

Global growth.

Uncertainties surround the Russia-Ukraine war and its ramifications to the extent that there are speculations that it could result in recession in some countries. Even before the outbreak of the war, the International Monetary Fund (IMF), in its January 2022 update of the World Economic Outlook, had projected a moderation of global output growth from 5.9 percent in 2021 to 4.4 percent in 2022 and 3.8 per cent in 2023. The war and sanctions are expected to result in huge global losses as both Russia and Ukraine are major players in the global supply chain. Also, there are expectations of a backlash of the sanctions on several economies as Russia is a key player in the financial and commodities market. The headwinds to recovery associated with the war include: rising energy prices, persisting supply bottlenecks, commodity price shocks and rising global inflation amid strong demand. With the war, the covid-19 pandemic appears to have taken a back sit as the full focus of global policy makers turned to the war, sanctions and their backlash as well as the medium to long-term impact of the war. However, the impact of the pandemic continues to pose a significant headwind to full economic recovery.

Global inflation

In 2021, inflation rose significantly in several countries and it was initially thought to be transient. But this has turned out not to be so. The estimated inflation for the Advanced Economies (AEs) and EMDEs in 2021 were 3.1 and 5.7 percent, respectively, compared with 0.7 and 5.1 percent in 2020, for the two groups of

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countries, respectively. As a result of the ongoing war, global inflation is projected to remain elevated in the near-to-medium term in response to soaring energy costs, labour market shortages, strong aggregate demand and supply disruptions. Prices of commodities and energy respond to increased disruptions to the global supply chain, driven by the sanctions imposed on Russia and the expected backlash on the global economy.

Global trade and markets

Global trade witnessed strong recovery in 2021 reaching a record level of about US$28.5 billion. However, the recovery of trade in goods and services is expected to moderate in 2022 as inflation persists in the advanced economies, alongside the war between Russia and Ukraine. A major headwind to global trade is the worsening supply bottleneck in the global market. Fragile and sensitive supply chains under covid-19 are now facing new challenges in the aftermath of Russia's invasion of Ukraine. The prospects for the continued recovery of global trade may be weakened by the impact of the sanctions on Russia and the expected backlash on the global economy.

Also, renewed uncertainties have hit global financial markets, causing investors to step back once again and seek refuge in gold and other precious metals. Global financial markets are now facing turmoil and renewed uncertainty due to the combined impact of the lingering covid-19 pandemic and the backlash from the sanctions imposed on Russia.

Crude oil prices

After a gradual and continued rally in the wake of the recovery of global aggregate demand, post-lockdown, oil prices shot up sharply in the last week of February up to the first week of March 2022 as hostilities between Russia and Ukraine escalated. As international sanctions built up against Russia (a major oil exporter) and its exports, the ensuing supply shortage has pushed oil prices well above the US$100 per barrel mark. As at 18th March, 2022, crude oil prices were as follows: OPEC basket: US$ 104.96 per barrel; Bonny Light: US$109.18 per barrel;

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UK Brent: US$107.93 per barrel. Indeed, oil price reached US$140.00 per barrel on 7th March, 2022 and with expectations of hitting US$200.00 per barrel in the short to medium term. Crude oil spot prices are expected to average US$135.00 per barrel in 2022.

Global capital flows

There has been a slowdown in foreign portfolio inflows into emerging markets. In February 2022, such inflows stood at US$17.6 billion compared with US$66.4 billion in February 2021, the highest since December 2020. The risk factors include increased uncertainty surrounding the inflation outlook in the Advanced Economies, uncertainty over tapering plans by the US Fed, the regulatory developments in China and its real estate market related systemic risk, and uncertainty regarding the Russia-Ukraine war and the resulting sanctions imposed on Russia. These factors have weighed down investor sentiment.

Monetary policy normalisation

As was mentioned earlier, some central banks of the Advanced Countries, in particular, are at one stage or the other of their monetary policy normalisation. However, the Russia-Ukraine conflict poses a huge dilemma for the central banks in the Advanced Economies. There is uncertainty as to whether or not these banks will postpone, progress with or adjust the normalisation plans in view of the possible negative impact of the Russia-Ukraine war on global recovery and, perhaps, even triggering a recession. There is the fear that in the event of another recession, governments and markets will be largely exposed to sizeable vulnerabilities associated with the huge build-up of both private and public debt which may, consequently, trigger another financial crisis. EMDEs are very likely to be hurt by the commencement of monetary policy normalisation as

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capital outflows are exacerbated and consequently exerting further upward pressure on exchange rates.

IMPLICATIONS OF THE GLOBAL DEVELOPMENTS FOR NIGERIA

As outlined above, the global economy is currently grappling with several challenges including the lingering covid-19 pandemic, rising inflation and rising commodity prices, the impact of Russia-Ukraine war and the backlash from sanctions on Russia, monetary policy normalisation, among others. These have implications for the different economies in varying degrees. As a highly globalised economy, the Nigerian economy is vulnerable to shocks from global commodity and financial markets and is at present at the receiving end of most of the implications of negative exogenous shocks.

- *Rising crude oil and gas prices in the world market*. This would, under normal circumstances, be good news to Nigeria, a country that is well-endowed with oil and gas resources, to take advantage of the rising oil and energy prices to earn more oil revenue and boost foreign exchange reserves. But the country has not been able to benefit from the high crude oil prices because of challenges relating to oil theft, pipeline vandalisation and attacks, weak investments in the sector/divestments by some major oil companies. Crude oil production reduced from 2.07 mbpd in quarter 1, 2020 to 1.61 mbpd in quarter 2, 2021. Reports even indicated further decline to 1.27 mbpd in August. Current data indicate that Nigeria's oil production dropped in February 2022 to an average of 1.25 mbpd from 1.39 mbpd in January. This low level of output with export at about 1.0 mbpd partly explains why the sharp increase in oil price has not impacted much on government revenue or foreign reserves accretion. The other factor that has continued to limit the impact of high oil prices is the continued heavy importation of refined petroleum products for nearly all the domestic consumption needs, Nigeria being a net importer of refined petroleum products. With rising crude oil prices, the cost of importing refined petroleum products has risen significantly implying higher subsidy payments and increased fiscal deficits and also impacting negatively on net accretion to reserves.
- *The Russia – Ukraine war* has further worsened global inflation arising from supply shortages and bottlenecks. Nigeria is an import-dependent country, and inflation has been trending upwards amongst its major trading partners

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and having exchange rate pass-through effects on domestic prices in the country, for example, of imported wheat and other agricultural commodities, refined petroleum products and natural gas, fertiliser, imported inputs, etc. Thus, rising commodity prices abroad, especially in the country's trading partners, increase the risk of higher domestic prices through imports; increased import bills have attendant implications for the depletion of external reserves and weakening of the naira exchange rate.

- *Monetary policy normalisation.* Before the Russia – Ukraine war, the issue of monetary policy normalisation by the AEs to tame the rising inflation had been on the front burner. It is not clear if the pace of normalisation will reduce with the present supply shortages occasioned by the war. But if the pace continues as had been planned, Nigeria will be negatively impacted, against the backdrop of its weak macroeconomic fundamentals, through capital flows reversal and associated heightened pressure on external reserves and exchange rate. A depreciating naira could magnify the exchange rate pass-through to inflation. Also, the country's cost of new borrowings may increase as interest rates rise due to monetary policy normalisation. This would constrain the fiscal space and perhaps also affect credit rating of the country. However, the country could benefit from interest rate hikes in the AEs through higher returns on foreign currency denominated investments abroad.

BASIS FOR OPINION

Before the Russia – Ukraine war, economic recovery was gaining momentum in the country. Nigeria's real GDP grew by 3.98 percent (year-on-year) in Q4-2021 revealing a sustained recovery in the domestic economy for the fifth consecutive quarter. The average growth rate for 2021 was 3.4 percent. On a quarter-on-quarter basis, real GDP grew by 9.63 percent, a slightly moderate growth when compared to 11.07 percent growth recorded in the previous quarter. Nevertheless, although the output growth figures signpost a sustained economic recovery, the growth is still low, fragile and sluggish against the backdrop of high rate of unemployment and poverty. Importantly, besides the shock and headwinds posed by the Russian-Ukraine war and lingering covid-19 pandemic, the Nigerian economy faces acute energy shortages, legacy structural bottlenecks and security challenges that pose significant downside risks to the economy's full recovery to its long-run desired growth path.

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Also, before the Russia – Ukraine war, there was optimism that inflation, after the spike last December which was considered transient, would decelerate in the short-term. And headline inflation actually declined in January 2022 to 15.60 percent from 15.63 percent last December. Suddenly, the Russia – Ukraine war has disrupted the positive inflation outlook and the inflation rate climbed to 15.70 percent in February 2022 attributable largely to imported inflation, occasioned by supply chain disruptions abroad leading to higher commodity and energy prices as a result of the war. This has worsened the global inflation that was attributed to the large monetary and fiscal stimuli deployed across the globe to reflate economies from the effects of covid-19-induced recession. What has happened in Nigeria is that besides the exogenous triggers of inflation, economic agents have capitalised on the supply shortages relating to some products to arbitrarily increase the prices of goods and services in the country. They are able to do this in a market system that is being blatantly manipulated. The decline in food inflation in February 2022 to 17.11 percent from 17.13 percent in January and the increase in core inflation to 14.01 percent in February 2022 from 13.87 percent in January confirm the exogenous nature of the drivers of the current inflation. The increase in core inflation in the country was strongly linked to two factors: i) the high cost of energy products, arising from shortages, and profiteering by economic agents, particularly, relating to petrol, diesel and aviation fuel; and ii) the continuous demand pressure in the foreign exchange market which has led to depreciation of the exchange rate and high prices of imported goods in Nigeria.

Consequently, a further tightening of monetary policy will not tame the inflation. Rather, it will lead to increase in lending rates of the commercial banks, limit access to credit, and hurt investment in the real sectors of the economy. Indeed, a further tightening policy will be antithetical to the CBN's goal of increasing access of investors to cheap credit in order to aid economic recovery, spur growth, increase employment and reduce poverty. On the other hand, easing monetary policy in the present circumstances could increase untargeted money supply growth and exacerbate inflation. The situation of low

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growth, high unemployment and poverty incidence and double-digit inflation, no doubt, entails difficult policy choices.

Nevertheless, output growth requires continuous policy support, especially monetary policy to complement fiscal policy which, for some time now, is characterised by weak fiscal space. Targeted development finance interventions of the CBN would need to be sustained to boost aggregate supply of goods and services in aid of non-monetary inflation control. Meanwhile, the current double-digit inflation can be reduced by considering the following:

- NNPC should do the needful to eliminate the current refined petroleum products scarcity and the regime of high prices attributed to it.
- The Government should provide necessary support to the investors developing local refineries, including modular refineries, to enable them expedite the completion of their projects, take-off, and start supplying products to the local markets.
- The Bank should endeavour to maintain a stable naira exchange rate to minimise its pass-through effects on imported goods prices.
- Governments at the Federal and state levels should use moral suasion to discourage economic agents from arbitrarily increasing the prices of goods and services. It could have a psychological and positive effect.
- The CBN should ensure effective implementation of its development finance interventions in specific agricultural products and non-export value chains. It should address any genuine concerns of stakeholders on the interventions.

In light of the foregoing, my vote is to hold the monetary policy parameters constant, viz:

MPR	-	11.5%
Cash Reserve Requirement (CRR)	-	27.5%
Liquidity Ratio	-	30%
Asymmetric Corridor	-	+100/-700 basis points.

7. OBIORA, KINGSLEY ISITUA

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In view of a modest economic recovery and in support of the monetary policy actions already taken, I voted to: retain the Monetary Policy Rate (MPR) at 11.5 per cent, the Cash Reserve Ratio (CRR) at 27.5 per cent, the Liquidity Ratio (LR) at 30.0 per cent and the asymmetric corridor of +100/-700 basis points around the MPR. I believe this stance will further support a sustained economic recovery and contain inflationary pressures.

Although COVID-19 vaccination continued to save lives and help the global economic recovery, Russia's invasion of Ukraine is derailing this recovery path. The invasion of Ukraine on 24 February 2022 has not only resulted in human suffering and deaths but also has had far-reaching economic implications for the world economy. It is adversely affecting global inflation, output, supply chains, business and consumer confidence. This is because Russia and Ukraine are major producers of several base metals (Aluminum, Palladium and Nickel) and agricultural commodities (Wheat, Maize and other coarse grains). The supply chain disruptions associated with the war is resulting in higher commodities prices, thereby fueling global inflation and weakening output. Also, as the war is putting upward pressure on commodities prices, the COVID-19 pandemic is resurging after a consistent decline in recent weeks. The virus is rising in some parts of the world, especially in China, Japan, South Korea, Vietnam, and other western pacific countries, leading to an increase in the number of confirmed cases to over 470 million and over 6 million deaths as of 21 March 2022. Therefore, there is an urgent need to intensify the effort in ramping up vaccination across the world, especially in countries where the virus is resurging.

On the back of these developments, the IMF had revised downward the global economic outlook for 2022. Notwithstanding the downward revision, the J.P Morgan Global Composite Purchasing Managers Index rose to 53.4 index points in February 2022 from 51.1 index points in January 2022, driven by growth in new orders, employment and improvements in business optimism. In the January World Economic Outlook (WEO), the International Monetary Fund (IMF) revised downward the projection of the global economy to 4.4 per cent in 2022 from 5.9 per cent in 2021. The downward revision was driven by soaring global inflation, tightening monetary policy stance in some advanced economies and the downturn in China's property sector. The growth in Advanced economies, Emerging Market and Developing Economies, and Sub-Saharan Africa is

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expected to moderate to 3.9, 4.8, and 3.7 per cent in 2022 from 5.0. 6.5 and 4.0 per cent in 2021, respectively. The economies of the United States, Euro Area and the United Kingdom are forecast to moderate by 4.0, 3.9, 4.7 from 5.6, 5.2 and 7.2 per cent, respectively. The growth in China is also projected to moderate to 4.8 per cent from 8.1 per cent in 2021. Most analysts expect a further downward revision of the global outlook due to the reverberating effect of the ongoing Russia-Ukraine war, which has added to the downside risk of the global economic outlook.

Following the expected moderation in global growth, the Nigerian economy is also forecast to grow slower in 2022, compared with 2021. Official statistics from the National Bureau of Statistics (NBS) indicated that real GDP moderated to 3.98 per cent in Q4 2021 from 4.03 per cent in Q3 2021 per cent and significant growth from 0.11 per cent in the corresponding quarter of 2020. The growth was driven by the non-oil sector, with Trade, Agriculture, Telecommunications and Financial Institutions recording growth of 3.87, 5.31, 5.34 and 25.19 per cent, respectively. Overall, the non-oil sector moderated to 4.73 per cent in Q4 2021 from 5.44 per cent in Q3 2021. It, however, contributed 94.81 per cent in Q4 2021 to the nation's GDP, higher than 92.51 per cent in the preceding quarter. Although the Oil sector improved, it contracted further by 8.06 per cent from a contraction of 10.73 per cent in Q3 2021. Also, in Q4 2021, the Oil sector's relative contribution to total real GDP stood at 5.19 per cent, down from 7.49 per cent in Q3 2021 due to pipeline vandalism and oil theft, with adverse implications for Federal Government revenues and accretion to external reserves. Accordingly, the IMF projected the Nigerian economy to moderate to 2.70 per cent from 3.40 per cent in 2021. Although Manufacturing (PMI) remained in the positive territory, it declined to 50.01 index points in February 2022 from 51.4 index points in January 2022. It was driven by an increase in production, employment levels in manufacturing, as well as an increase in supplier delivery. Furthermore, the gross external reserves inched up by 0.76 per cent (M-O-M) to US$39.62 billion at the end of February 2022, from US$39.32 billion at the end of January 2022, driven by FX swap transactions and crude oil-related taxes & penalties. Overall,

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the modest economic growth was driven by the continued fiscal stimulus and accommodative monetary policy stance of the Central Bank of Nigeria (CBN).

The banking system maintained its resilience amid economic recovery. Total assets of the banking industry grew by 18.53 per cent from N52.32 trillion in February 2021 to N62.01 trillion in February 2022, driven by balances with CBN/banks, OMO bills, and credit to the real sector of the economy. As a result, the total flow of credit to the economy increased during the review period. A total of 116,443 new credits valued at N819.63 billion were granted to various sectors of the economy, from Oil and Gas, Manufacturing, Governments to General commerce. This was higher than 96, 583 new credits valued at N566.35 billion in February 2021. Overall, the industry credit increased by 19.53 per cent to N25.25 trillion in February 2022 from N21.13 trillion in February 2021. The industry NPL ratio continued to trend below the prudential threshold of 5 per cent. It decreased to 4.80 per cent at the end of February 2022 compared with 6.38 per cent in February 2021. The downward trend was attributable to recoveries, restructuring of facilities and sound management practices by DMBs.

As the domestic economy continues to recover, imbalances remain. Although the domestic economy is on the path to a strong recovery, it is still fragile. Despite rising oil prices, Crude Petroleum and Natural Gas continued to contract in Q4 2021. Also, oil production remained below the OPEC allocation quota, with attendant consequences on fiscal revenues and external reserves. Inflation pressure has also persisted, as headline inflation increased to 15.70 per cent in February 2022 from 15.60 per cent in January 2021, driven by infrastructural deficiencies, increases in both the pump price of Premium Motor Spirit (PMS) and electricity tariffs. However, food inflation slightly moderated to 17.11 per cent in February from 17.13 per cent in January 2022, reflecting partly the Bank continued intervention in agriculture to boost food production in the country.

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Yet forecasts are fraught with significant headwinds. The invasion of Ukraine by Russia is a growing concern, especially with rising inflation and weakening global economic growth. The resurgence of COVID-19 infections in some locations is a reminder that though the global spread may have waned, it is not yet over. The recent effort, however, by the World Health Organisation (WHO) to support the Covid-19 vaccine production in six African countries (Egypt, Kenya, Nigeria, Senegal, South Africa and Tunisia) is quite commendable. They will help reduce the continent's reliance on vaccine imports and increase the immunization rates. While the domestic outlook has somewhat improved, it is still confronted with short to medium-term challenges. This explained why the IMF projected the economy to moderate to 2.70 per cent in 2022 from 3.40 per cent in 2021. However, the Bank in collaboration with the Federal Government is extensively focusing on interventions targeted at increasing aggregate demand, boosting domestic agricultural production, driving lending to MSMEs and investing in critical infrastructure. Therefore, considering the modest growth recovery and allowing the measures aimed at containing inflationary pressures to take their full effect, I voted to:

- Retain the Monetary Policy Rate (MPR) at 11.5 per cent;
- Retain the Cash Reserve Ratio (CRR) at 27.5 per cent;
- Retain the Liquidity Ratio (LR) at 30.0 per cent; and
- Retain the asymmetric corridor to +100/–700 basis points around the MPR..

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8. SANUSI, ALIYU RAFINDADI

1.0 Decision

Today, I voted to raise the MPR by 50 basis points in order to prevent a reversal of the current disinflationary process. Although I am still convinced that the inflationary process was primarily driven by supply-side and structural issues, which ordinarily requires no change in monetary policy stance, the threat of a reversal of the disinflationary trend in December and February, following a number of domestic and global developments, strongly points to the possibility of the second-round effects. Given the available data and staff forecasts, I am convinced that the prolonged rise in the prices of the food and energy components of inflation may have started to feed into the core inflation, resulting in a second-round effect, thereby making monetary policy response appropriate and efficient. I, therefore, voted to raise the MPR as a means of putting a lid on the possible second-round effects of the prolonged shocks to Food and Energy inflation on the Core inflation.

2.0 Background and Justification

2.1 Global Economic Developments

The war in Ukraine has dampened the optimism for stronger global recovery, thereby truncating the IMF's growth forecasts for output growth in 2022. The mounting global sanctions and the consequential rise in energy and food prices

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as well as imported inflation associated with the war, have introduced a new set of downside risks to the global growth and upside risks to the global inflation outlook. Amidst the existing domestic structural challenges, these external sources of shocks have significant adverse effects on the domestic inflationary process.

The Russian-Ukrainian war started at a point when the COVID-19 pandemic entered a new phase in which the virus appeared set to take a weaker form that is more flu-like, raising hope for full global economic recovery in 2022. This optimism is, however, dampened by the several shocks that are spreading across several countries following the Russian invasion of Ukraine and the backlash of the trade and financial sanctions imposed on Russia and Belarus by the US and the EU. These shocks, which include rising global energy prices, persistent bottlenecks in the global supply chain, rising commodity prices as well as rising global inflation, have substantially increased the downside risks to the global growth outlook at a point when the risks associated with COVID-19 pandemic were waning. The war in Ukraine has, therefore, introduced additional uncertainties to the outlook for global economic activity, which critically depends on the dynamics of the war. Consequently, IMF has revised its earlier growth forecasts downwards from 4.9% to 4.4% for the year 2022, compared with 5.9% in 2021. Similarly, the World Bank has reduced its growth forecasts for 2022 from 5.5% to 4.1%. Total output is forecasted to grow at 3.8% in 2023. Output growth in the Advanced Economies (AEs) is similarly forecasted to progressively decline from 5% in 2021 to 3.9% in 2022, and further to 2.6% in 2023. Growth in the Emerging Markets and Developing Economies (EMDEs) is also forecasted to decline from 6.5% in 2021 to 4.8% in 2022 and remain flat at 4.7% in 2023.

The events in Ukraine are important to the evolution of the global economic activity, in part, because of the significant dependence of the world trade on several Russian and Ukrainian products. These include Natural gas (41% of Europe's supply), crude oil (34% of Europe's supply), agricultural commodities

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(20% of the world's trade in wheat, 20% of world corn exports, and 80% of world sunflower oil exports), fertilizers (Urea and potash) and industrial metals (leading exporters of aluminium, nickel, copper, iron ore, neon). Consequently, the global commodity market is already severely affected by the war. For instance, Crude oil price has sharply risen to $104.96/b (OPEC Basket) as at 18th March 2022, as a result of the supply shock and uncertainty in the face of the escalating conflict amidst strong global oil demand. Prices of agricultural produce, especially wheat and corn, have also risen following the disruptions in the global grains market. The global food price has increased by 3.91% between January and February 2022; wheat and corn have, respectively, increased by 4.35% and 5.78% between January and February 2022.

The global inflationary pressures, which were driven by the strong pent-up demand amidst (easing) supply bottlenecks before the invasion, are now exacerbated by the conflict. Global inflation has, therefore, maintained its upward trajectory. In the near-term, global inflation is projected to remain high because of the disruptions to the global supply chain by the war. As at February 2022, inflation in the United States was 7.9%, which was the highest rate in 40 years. In the Euro Zone, inflation was at the all-time-high rate of 5.9% while in the UK it was at the 30-year high rate of 5.5%. In the Advanced Economies, inflation is forecasted to increase to 3.9% in 2022 from 3.1% in 2021, before declining to 2.1% in 2023. In the EMDEs, Inflation is expected to rise to 5.9% in 2022 from 5.7% in 2021. It is expected to decline slightly to 4.7% in 2023.

The outlook for global trade, which had fully recovered in 2021 from the disruption of the pandemic, is now threatened by the Russian-Ukrainian war. The recovery is expected to moderate in 2022 in the wake of mounting sanctions on Russia by the US and EU. Freight costs and delays are expected to increase because of the blockage of the Black Sea as well as the no-fly zone over Russia. The heightened uncertainty in global trade is likely to remain for the duration of the crisis.

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Monetary policy normalisation in the Advanced Economies has been well underway, with rates hike already started by the Bank of England in its February 10th meeting and by the US Fed during its March 14th meeting in order to curb the raging inflationary pressure. The European Central Bank had, however, retained its rates in order to conclude its bond purchase programme, and deal with the high unemployment and worsening welfare arising from the consequences of the Russian-Ukrainian war. The Central Banks in most EMDEs have also started raising their policy rates. South Africa, Brazil, Russia, and Ghana have all raised their key policy rates in anticipation of the capital flow reversals arising from policy normalisation in the AEs. Global capital flows to the emerging markets have continued to slow down. Portfolio inflows to the Emerging Markets declined from US$66.4 billion in February 2021 to US$17.6 billion in February 2022 due to waning investor confidence, policy normalisation in the AEs, and uncertainties relating to the Russian-Ukrainian conflict.

The key implications, for Nigeria, of these global developments (the rising energy and food prices, rising global inflation, policy normalisation, and global trade disruptions) include, amongst other things, the potential threat to reverse the current disinflationary trend that started in April 2021.

2.2 Domestic Economic Developments and their Implications

As expected, domestic output sustained its strong recovery during the last quarter of 2021 with a better-than-expected growth rate of 3.98% (y-o-y), compared with 4.03% in the 3rd Quarter of 2021. Like in the previous quarter, the output growth was driven by the non-oil sector, which grew by 4.73. % (y-on-y). The non-oil GDP growth was driven by growth in services (5.5%) and agriculture (3.58%). The oil GDP, however, contracted for the 7th consecutive quarter by -8.06% (y-on-y) in Q4 2021 from -10.73 in Q3 2021. The moderation was due to the declining level of crude oil production which has remained well below the OPEC quota mainly due to the worsening level of oil theft and pipeline vandalism. The unchecked oil theft is preventing Nigeria to benefit from the

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rising global oil price. According to staff forecasts, output will grow at 2.71% in Q1 2022 and 2.99% in Q2 2022, and 3.24% for the year 2022.

The disinflation, which started in April 2021, appears to have been paused since December 2021 by an uptick that turned out to be temporary following a marginal decline in January 2021. However, in February 2022, another uptick was recorded, suggesting a possible end of the disinflationary trend. Since December 2022, therefore, inflation has remained obstinately sticky downwards, owing to unabating pressures from both the food and core components. Specifically, the headline inflation has increased (y-on-y) from 15.60% in January 2022 to 15.70% in February 2022. The increase was driven by the core component, which increased (y-o-y) from 13.87% in January 2022 to 14.1% in February 2022, representing the 4th consecutive rise since November 2021. The rise in Core Inflation was largely driven by increases in the prices of housing, water, electricity, gas & other fuels, and clothing & footwear. The rise in core inflation is linked to the high cost of energy goods particularly PMS and AGO. Food inflation, however, has marginally declined (y-o-y) further from 17.13% in January 2022 to 17.11% in February 2022, driven by moderation in the prices of processed foods, bread and cereals, and yam, potatoes & other tubers.

On a month-on-month basis, however, the increase in headline inflation from 0.16% to 1.63% in February 2022 was driven by acceleration in both the Food and Core components. The m-o-m rise in the food component was driven by increases in the prices of bread and cereals, potatoes, yam & other tubers, oil & fats, and fruits. The m-o-m rise in the core inflation component was driven by prices of processed food, clothing & footwear, furnishing, household equipment & maintenance, transport, education, health, restaurant & hotels, and miscellaneous goods and services. The upward trend in the core inflation is attributable to a number of factors including the lingering structural issues, external shocks, continuous foreign exchange market pressure, imported inflation, and rising energy prices. In addition, the prolonged high food and

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energy prices may also feed into the core inflation through the cost and expectations channels to produce second-round effects on the headline inflation. According to Staff Projections, inflation will rise in the near-term, to 15.72% and 16.34% in March and April 2022, respectively, driven by both the core and food components as a result of scarcity of refined petroleum products, disruptions in electricity supply, and effects of the Russian-Ukrainian war.

According to the data available, the banking industry has continued to remain resilient, with all the ratios indicating that the industry is sound. The Capital Adequacy Ratio (CAR) of the industry was 14.4% as at February 2022, which is above the regulatory minimum of 10%. The quality of the industry's assets has also improved further as the Non-Performing Loan (NPL) ratio declined to 4.8% in February 2022, below the regulatory maximum of 5%. The industry's total credit to the economy has also increased from N20.48 trillion in December 2020 to N25.25 trillion in February 2022 owing to the Bank's LDR policy. Analysis of the interest rate band reveals that 70.49% of customers paid interest rates of less than 15% in February 2022. This shows that interest rates are declining as more credits are being granted by the banking system.

3.0 The Basis for My Policy Choice

The unabating pressure on the food price component of the headline inflation, which started in August 2019, had largely remained the major driver of headline inflation. Being predominantly supply-side, therefore, the heterodox policy interventions by the bank aimed at boosting production provides an effective means of simultaneously reducing inflation and also supporting output growth. This was evidenced by fast output recovery since Q1 2021 following the pandemic-induced recession, and declining inflation. Conventionally, in the case of transitory supply-side shock, the hold-steady approach to monetary policy is more efficient, and the temporary increase in inflation is better accommodated. However, in the presence of second-round effects whereby the rising food or energy prices feed into the core inflation, then a monetary

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policy response is required. Given my analysis of the available data, coupled with the staff projections of inflation, I am convinced that the observed upward trend in the core inflation may be reflecting the presence of second-round effects. In addition, being a pre-election year, a significant liquidity injection is expected, which a forward-looking monetary policy has to appropriately respond to. Therefore, in choosing between the options to tighten, hold or loosen the current policy stance, I voted to raise the MPR by 50 basis points in order to rein in inflation. Although the output recovery still remains fragile, the bank's use of the development finance interventions in selected employment-generating and output-stimulating sectors would continue to support output recovery.

Consequently, I voted to:

Raise the MPR by 50 basis points to 12.00 per cent;

Retain the CRR at 27.5 per cent;

Retain the asymmetric corridor at +100/–700 basis points around the MPR; and

Retain the liquidity ratio at 30.0 per cent.

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9. SHONUBI, FOLASHODUN A.

Challenges to global growth took a new dimension with the onset of the Russian-Ukraine crisis, even as disruptions to the global macroeconomic environment on account of the pandemic is yet to abate. Almost one month into the crisis, with chances of a short-term closure fading, the adverse impact is already manifesting via further disruptions to global trade, higher energy prices and financial market downturn. Concerns are therefore building about the implications for growth and inflation, a situation that further complicates the policy options for central banks.

Despite the moderate positive outcomes of the effort of both fiscal and monetary authorities, recent developments in the domestic macroeconomic environment have shown that the Nigerian economy is not totally insulated from the spillovers of the current crisis in the euro area. Domestic growth remains fragile and the already elevated inflation is aggravated by the rise in energy prices, due mainly to domestic supply bottlenecks, while domestic and foreign exchange revenue continue to dwindle. We obviously need to further explore our ingenuity in policy making to do more of what is working and identify what else can be done to consolidate the gains made so far, while ameliorating the impact of the current crisis.

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Global and Domestic Economic Developments

Impact of the Russian-Ukraine crisis has changed the dynamics of headwinds to global growth. Rising likelihood of the conflict protracting has further heightened uncertainties around a global economy that still struggles to recover from pandemic-induced damage. With global inflation already impacted by rising energy prices and economic activities, particularly in the euro-area, suffering from disruptions to trade, energy supply shortage and labour market dislocations, the outlook for global growth and inflation in 2022 faces major headwinds. Global growth is thus projected to moderate, especially as a result of projected further slowdown in the Advanced Economies, while global inflation expectation is anchored on pressure from rising energy prices.

Whereas domestic food inflation declined marginally from 17.13 per cent in January 2022 to 17.11 per cent in February 2022, headline inflation rose to 15.70 per cent (year-on-year), from 15.60 per cent in the previous month. The rise in headline inflation reflected the increase in core inflation, on account of elevated energy prices due to bottlenecks in domestic supply of petroleum products and higher cost of imports. On a month-on-month basis, headline inflation picked up by 1.63 per cent in February 2021, compared with 1.47 per cent in January 2021.

Following a 3.98 per cent growth in the 4th quarter of 2021, the economy grew by 3.4 per cent (year-to-year) in 2021, against 1.92 per cent contraction in 2020. This reflected the 4.44 per cent growth in non-oil sector, even as the oil sector contracted significantly by 8.30 per cent. That the non-oil sector was the main driver of growth in 2021 is a welcome development. More so, significant disruptions to domestic oil production and the subsidy regime has not allowed the full benefits of recent rise in global oil prices to manifest in the domestic economy.

The impressive state of the banking system was sustained in the first quarter of 2022, even as the sector continues to be the main medium though which CBN

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supports growth. Despite growth in credit, resilience of the sector was underscored by further improvement in the NPLs ratio to 4.84 per cent, below 4.90 per cent in 2021 and the regulatory minimum of 5.0 per cent. Notwithstanding the marginal moderation in industry liquidity and capital adequacy ratios, the levels recorded were within prudential limits, while the upward trend in industry asset and deposit was sustained. It is worthy of note that growth in major monetary aggregates was within the provisional benchmark, while money market rates trended downward.

The fiscal and external sectors continued to grapple with limitations imposed by inefficiencies in the current domestic economic structure and macroeconomic environment. Despite rising global oil price, expected accretion to reserves and increase in foreign exchange inflow is lost to production shortfall on account of vandalism/theft and funding of refined product importation. Consequently, the fiscal space has become narrower and weaker as government is unable to mobilise enough resources to make the expected interventions and impact.

Overall Considerations and Decision

Prospects of global growth in 2022 is predicated on how quickly further escalation of the Russian-Ukraine crisis is curbed and ultimate resolution achieved. This is in addition to what more is accomplished with the progress on continual easing of pandemic induced restrictions. Delayed or lack of progress may invariably pose significant challenge to global trade, financial market operations and productive activities. The global economy may thus be heralded into an era of significant inflationary pressure and muted growth, a condition that complicates opportunities for policy maneuvers.

The dynamics of today's global macroeconomic environment has increasingly exposed the danger of a domestic economy that derives its strength from outside its shores. An economy that leverages its internal strength can easily ward-off negative spillovers from a global economic environment that

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consistently faces new threats, arising from vulnerabilities generated by unending novel interactions.

Accordingly, ongoing collaboration between the Bank and fiscal authorities to support recovery and promote sustainable growth is in the right direction. The Bank's effort at using the legitimate means of development financing to support agriculture and small businesses to promote domestic production is expected to help preserve the trajectory of growth and moderate the inflationary pressure. Also worthy of note is the potential impact of novel interventions such as the 100 for 100 Policy on Production and Productivity, and the, RT 200 FX Policy, on local production for export and external sector prosperity.

The fiscal authority faces increasing pressure from the requirement for more expenditure to address insecurity, close the gap in infrastructure development and ameliorate protracting impact of the pandemic in the face of dwindling revenue and high debt stock. Again, I will implore the fiscal authority to explore additional options under the Public Private Partnership model for its public investment and infrastructural development projects, so as to free resources for other initiatives, targeted at improving welfare of the citizenry.

Looking into the immediate future on inflation, even with the robust plan of the Bank to moderate food prices by deploying strategic reserves, the inability to prevent smuggling into neighbouring countries that have been ravaged by drought due to our porous borders, may limit the impact of such intervention. More so, the effects of the recent crisis in the euro area on global energy prices, increased cost of trade and the rising cost of imports, which are yet to fully crystalize will be major sources of inflationary pressure. We must effectively leverage the opportunity provided by available indicative data and therefore remain forward looking. As the authorities strive to sustain the trajectory of growth and address insecurity challenges, we must act ahead of time to deal with the subtle monetary component of inflationary pressure and curb spiraling inflation, without suffocating economic growth.

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I therefore vote to:

- Raise MPR by 50 basis points to 12.0 per cent.
- Retain Asymmetric corridor of +100/-700 basis points around the MPR.
- Retain CRR at 27.5 per cent; and
- Retain Liquidity Ratio at 30 per cent.

10. EMEFIELE, GODWIN I.

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GOVERNOR OF THE CENTRAL BANK OF NIGERIA AND CHAIRMAN, MONETARY POLICY COMMITTEE

With the onset of the Russia-Ukraine conflict, the expected recovery of the global economy from the Covid-19 shock has weakened. The myriad of economic sanctions against Russia are constraining supply chains, tightening global markets and heightening vulnerabilities. We are witnessing intense global energy and food crises, along with escalating risks in many countries, particularly, in the emerging markets. Already, the economic fallouts from the conflict are resonating globally and, reinforced by lingering Covid-19 headwind. These have exacerbated macroeconomic uncertainties and undermined short-term prospects. Accordingly, IMF global growth projections of 4.4 and 3.8 percent for 2022 and 2023, respectively, may be downgraded to reflect the adverse effects of the war. Soaring prices, following energy and food crises, will intensify global inflationary pressures and complicate monetary policy as countries struggle to balance the price versus growth objectives, amid the new crisis. The conflict could impair external financial conditions in emerging markets, as advanced economies begin to normalise monetary policy. Overall, short-term global outlook is faltering as supply shortages push inflation expectations and financial market vulnerability worsens.

Domestic macroeconomic outlook remains positive but fragile, amidst global headwinds and local energy constrictions. Following a strong performance in 2021, recovery is expected to continue in 2022. Five consecutive quarters of GDP expansion with a 3.98 percent growth in 2021q4 from 4.03 percent in 2021q3. This translates to 3.40 percent growth in 2021 as against the contraction of -1.92 percent in 2020. Growth performance followed the 4.44 percent expansion of the non-oil GDP (mainly services, agriculture and manufacturing activities) as oil GDP contracted by -8.30 percent. These show the ongoing diversification of the domestic economy and the evident success of the CBN interventions in agriculture, Micro Small and Medium Enterprises (MSMEs), and manufacturing sectors, which are helping to resolve the long-standing structural bottlenecks and bolster productivity. At 50.1 points in February 2022

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manufacturing PMI, stayed above the 50 mark threshold, implying a continued rebound of business activities, labour mobilisation, and productive capacity, although the non-manufacturing index was below target. With the sturdy trajectory of domestic economic activities, in-house models project 2022 growth at 3.24 percent compared with 4.20 percent by FGN and 2.7 percent by the IMF.

Inflation expectations rose slightly in the domestic economy following an uptick in headline rate to 15.70 percent in February 2022 from 15.60 percent in January. This reflected the slim rise in core inflation to 14.01 percent as food inflation declined to 17.11 percent. Current inflation is attributable to renewed energy market shocks, as lingering PMS scarcity and electricity constraints drive-up domestic prices. Rising inflationary trend is noted and will be monitored closely. The trend is, notably, consistent with near-term forecasts of a short-lived ascent early in 2022 which will start declining after the first quarter. Analysis indicates that the uptick is transitory and could be overturned with sustained CBN's supply-boosting interventions in agriculture, manufacturing, and particularly infrastructure.

Money and financial markets developments show expansionary liquidity conditions during the review period. Weighted average OBB and interbank call rates indicate systemic liquidity surfeit, dipping from 6.00 and 16.00 percent in January 2022 to 5.81 and 9.30 percent in February 2022. Correspondingly, broad money growth quickened from 1.74 percent in January to 2.12 percent in February 2022. This was largely attributed to the 5.78 percent increase in net domestic assets in February 2022 from 2.62 percent in the previous month. It reflected the continued growth of banking system credits to the private sector supported by the sustained drive of the CBN to increase lending to high-impact real sector ventures. Gross credit maintained its upward trajectory since 2019, with a N4.13 trillion (or 19.53 percent) growth in industry credit between February 2021 and 2022. Amidst rising private sector credits, the banking system remains safe, sound and stable as NPLs ratio (4.84 percent), liquidity ratio (43.50

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percent) and CAR (14.42 percent), all stayed within satisfactory levels vis-à-vis their respective thresholds.

In my consideration, I note the heightening uncertainty in global macroeconomic conditions due to recent geopolitical conflicts, which could undermine global growth and intensify inflationary pressures. The resultant energy and food crises which are rippling worldwide could further debilitate recovery, especially in emerging market economies. As Russia and Ukraine currently account for most of the world's supply of wheat and maize, the conflict could destabilise countries that are most reliant on importation of these commodities. Fortuitously, Nigeria is adequately insulated from emergent global shortages, as the various CBN initiatives are ensuring domestic self-sufficiency in the production of these commodities. Yet, there is a wide-ranging prospect of imported inflation as elevated globally costs drag the prices of tradable goods. The CBN will continue to analyse unfolding global dynamics and the ramifications for the domestic economy. The Bank will ensure to take bespoke actions to mitigate possible adverse upshots of the prevailing conditions.

I assert that the objective of price and monetary stability remains inviolable, as we remain mindful of growth outlook. I note the continued improvement in short-term economic outlook, which, though positive, is fragile and should not be derailed. The MPC has so far adopted unconventional approaches to bolster domestic supply capacity, boost aggregate output, and stabilise prices. We will continue our policy of disinflation that is conducive to growth. To strengthen recovery and forestall the impact of the ongoing geopolitical conflict, we will continue to partner with the fiscal authorities to sustain support for manufacturing, agriculture, infrastructure, and MSMEs. I note that our recent actions have put GDP and inflation on satisfactory long-run trajectories. I acknowledge the recent unexpected rise in domestic inflation, which though, transient could justify arguments for tightening. But, importantly, economic

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recovery is still fragile, while per capita income and unemployment rate are at unacceptable levels.

My inclination today is to carefully balance the objective of price stability with output growth. Again, the dilemma of the trade-off between inflation and output remains extant, and I believe that a rate hike could upend our modest recovery. I am of the view that the current levels of policy parameters are appropriate to tackle emerging shocks, as the CBN strengthens its intervention programmes. I prefer to maintain the prevailing stance in order to foster price stability and output stabilisation without introducing disruptive policy shocks. Thus, I vote to:

1. Retain the MPR at 11.5 percent;
2. Retain the asymmetric corridor at +100/–700 basis points;
3. Retain the CRR at 27.5 percent; and
4. Retain liquidity ratio at 30.0 percent

GODWIN I. EMEFIELE, CON
Governor

March 2022

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